Research Note: How a Small Business Enters the International Market

Robert W. Rowden

Executive Summary

As the rate of economic globalization becomes faster and faster, small businesses in the United States can no longer afford to ignore the challenge of international commerce. Small businesses are a key factor in the economies of all nations. Small businesses must develop a global culture, challenge the attitude of key decision makers, gain crucial international experience, and overcome the size barrier. This requires successful entry-wedge strategies if the company hopes to have any chance of success. Many will need external support in finding ways to access foreign customers. This article provides information that can help small businesses with this venture. © 2001 John Wiley & Sons, Inc.

INTRODUCTION

With the rapid pace of economic globalization, small businesses in the United States can no longer afford to ignore the challenge of international commerce. The question a small business owner once asked was, “Do I export my product, or not?” The question has now become, “If I don’t expand my operations internationally, will I survive?” The small business has three major incentives to consider internationalizing: (1) domestic markets are becoming saturated, and continued growth will require identifying new markets; (2) foreign competitors are entering the American market and out-competing U.S. businesses; and (3) as production costs continue to escalate, U.S. companies can create a competitive advantage by securing cheaper production facilities overseas (Karagozoglu & Lindell, 1998; Simon, 1998).

Small businesses, however, do not have the financial and human resources available to the multinational corporations. Furthermore, a high level of risk aversion
Robert W. Rowden

...the small business must undergo extensive preparation and research if it is to be successful in its endeavor to internationalize. Typically marks the small business. Small businesses tend to “react to the environment, rather than predicting or controlling it,” which may make them “hesitant to actively seek out foreign customers or suppliers” (Baird, Lykes, & Orris, 1994:49). Finally, due to staffing limitations, small enterprises often suffer from managerial inexperience with international markets and have limited global information-gathering capabilities. Because they do not have the financial resources to hire culturally diverse managers, small businesses usually lack multicultural competence (Karagozoglu & Lindell, 1998).

The problems do not exist solely with the downstream elements of the value chain. Scully and Fawcett (1994:41) pointed out that smaller firms are “particularly vulnerable to increased global competition,” requiring that they face the challenges of globalization. Specifically, smaller firms must learn to develop competitive advantages in the manufacturing and production end of the value chain to survive. Simply put, to meet domestic customers’ expectations on price and quality, the small U.S. firm must learn to employ foreign sources of raw materials, labor, and production facilities, even if it has no intention of exporting its product. This task will require the development of specialized managerial abilities for implementing various value-added practices on an international scale (Scully & Fawcett, 1994). The expense of developing such talent internally may be beyond the financial reach of the small enterprise, in which case the firm must turn to external expertise.

Additionally, the small business must undergo extensive preparation and research if it is to be successful in its endeavor to internationalize. Yet, most small businesses have “insufficiently developed administrative procedures and methods [and] less formal centralized planning and control systems” than is usually necessary for successful internationalization (Karagozoglu & Lindell, 1998:46). This requires management development and formalization of the company’s strategic planning process (Baird et al., 1994). Reuber and Fischer (1997:811) demonstrated that “internationally experienced management teams have a greater propensity to develop foreign strategic partners and to delay less in obtaining foreign sales after start-up,” leading to a higher probability of success in the endeavor to internationalize. Formalization of the strategic planning process will overcome another possibly negative characteristic of many small businesses; that is, that many strategic decisions are made according to the owner/manager’s “personalized objectives” or anecdotal experience, rather than on solid, objective evidence and thoughtful research (Baird et al., 1994).
How a Small Business Enters the International Market

SMALL-BUSINESS STAGE MODEL

How do small businesses go international? Some small companies take an incremental approach where they begin as passive exporters, filling international orders but not actively seeking international sales. Later, the company may add an export department or an international division with a more proactive approach to international sales. Joint ventures and other forms of direct investment follow. This probably applies to the majority of small business efforts at internationalization.

The typical stages of internationalization for a small business include (Dollinger, 1995:148-149):

1. Stage 1—Passive exporting: the company fills international orders but does not seek export business. At this stage, many small business owners do not realize that they have an international market.
2. Stage 2—Export management: the owner or a specific manager specifically seeks export sales. Because of resource limitations, most small businesses at this stage rely on the indirect channel of exporting. However, this stage is often a major change in orientation for the small business manager. Exporting is seen as an opportunity for new business.
3. Stage 3—Export department: the company uses significant resources to seek increased sales from exporting. Managers no longer see exporting as a prohibitive risk. The key for most small businesses is finding a good local partner for distribution.
4. Stage 4—Sales branches: when demand for the company’s product is high in a country or region, it justifies setting up local sales offices. Small businesses must have the resources to transfer home managers to expatriate assignments or to hire and train local managers and workers to run these operations.
5. Stage 5—Production abroad: production moves a company beyond downstream value-chain activities. It allows companies to gain local advantages such as easy local product adaptation or production efficiencies. Companies may use licensing, joint ventures, or direct investments. This is often a very difficult stage for a small business because the cost of a failed direct investment can put the whole company at risk for survival.
6. Stage 6—The transnational: Small size does not preclude a small business from developing a globally integrated network that characterizes the transnational corporation.
Many small and some large companies find the deliberate process of internationalization by stages adequate for their strategic situation. Following the stage model allows companies to minimize their exposure to risk and develop their international expertise gradually. In contrast, other companies have products that often require them to go international immediately or to move rapidly through the internationalization stages.

**OVERCOMING BARRIERS**

Nancy Moore, director of the Virginia International Trade Center, stated that it is important for a business to know its product well, and to know the intended market. For example, expensive and sophisticated products will not sell well in developing countries. Products that are standard, basic consumption items, on the other hand, can often be marketed globally (N. Moore, personal interview, March 5, 1999).

In addition to knowing its product, the company must also know itself. Murray (1993) described nine characteristics of globally successful small businesses:

1. Exceptional demand for a product, and a demonstrated international market.
2. Decline in domestic sales of product after more technically advanced competitors have been introduced (less developed countries may not need or may be unable to afford state-of-the-art products).
3. A unique product that is difficult to duplicate abroad.
4. Secure capitalization, operations, and management to sustain an international venture.
5. Strong relationships with creditors.
6. The ability to expand staff and facilities if necessary.
7. An understanding of global markets and the willingness to devote the necessary time and resources to a new venture.
8. Commitment from senior management to provide resources and direction.

**CULTURAL CONSIDERATIONS**

To remain competitive and to flourish in the complex and fast-changing world of international business, companies must look worldwide not only for potential markets but also for sources of high quality but
How a Small Business Enters the International Market

less expensive raw materials and labor. Even small business managers who never leave their home countries will deal with markets and a workforce whose cultural background is increasingly diverse. Those managers with the skills to understand and adapt to different cultures are better positioned to succeed in these endeavors and to compete successfully in the world market.

Conducting business with people from other cultures will never be as easy as doing business at home. However, learning more about the nature of culture and how it affects business practices can increase the chances of success at crosscultural business interactions. When people from two different cultures are conducting business, making assumptions about another culture is often detrimental, and can result in miscommunication. The small business manager should develop realistic assumptions based on a truthful appreciation of the culture, and should refrain from any thoughts of cultural stereotyping. Cultural influences can be difficult to predict.

For example, an American businessman once presented a clock to the daughter of his Chinese counterpart on the occasion of her marriage, not knowing that clocks are inappropriate gifts in China because they are associated with death. His insult led to the termination of the business relationship. It is also bad to give one's Japanese counterpart gifts of greater value than those received. (Hendon, Hendon, & Herbig, 1998:25)

A cooperative approach is an appropriate strategy style for international business, particularly those with a long-term objective. Trust and respect are essential conditions for managers and customers from diverse cultural backgrounds (Cellich, 1995). For example, the building of trust and relationships is extremely important for the Japanese, Chinese, Mexicans, and most Latin Americans. Japanese may require several meetings before business issues are discussed, while North Americans are inclined to do business as soon as possible. Culture affects a range of strategies including the many ways they are implemented. The Israeli prefers direct forms of communication, and the Egyptian prefers an indirect form. The Egyptians interpret Israeli directness as aggressive, and are insulted, while the Israelis view Egyptian indirectness with impatience, and consider it insincere (Hendon et al., 1998). This cultural difference endangers any relations between the two countries.

Even the language of business can be deceptive. Compromise for North Americans shows morality, good faith, and fair play, but not for other cultures. To the Mexicans and Latinos, compromise means losing dignity and integrity; in Russia, it is a sign of weakness; in the
Middle East, it is a negative meaning as in the phrase “her virtue was compromised,” and in old Persian (Farsi) it means “meddler” (Herbig & Kramer, 1992). Members of other cultures may regard the common Western ideal of a persuasive communicator as aggressive, superficial, insincere, and even vulgar and repressive.

Faced with different customs, perceptions, and language, the most common human tendency is to stereotype the other party in a negative way. Tolerance is based on understanding different cultures, and not assessed by who is most valuable. A crucial perception is knowing what to look for and thoroughly researching the characteristics of a culture before conducting business (Berger & Watts, 1992).

Cultural type refers to the beliefs and behaviors of various cultures. Reviewing these culture types helps to explain their dissimilar styles in coping with life. On the basis of knowing the cultural values dominant in a particular country, a small business owner can have a general understanding of the other person’s negotiating style. Table 1 contains examples of cultural interpretations of values. Cultural types can be categorized as to gender, uncertainty avoidance, power distance, and individualism (Hendon et al., 1998).

With regard to gender, some countries have unbending divisions of sex roles. Masculine cultures value assertiveness, independence, task orientation, and self-achievement. Masculine culture’s strategy for negotiation is usually competitive, resulting in a win/lose situation (Hendon et al., 1998). Conflict is usually resolved by fighting rather than compromising, reflecting an ego-boosting manner. In this situation, the person with the most competitive behavior is likely to gain the most. Feminine cultures value cooperation, nurturing, modesty, empathy, and social relations and prefer a collaborative or a compromising style of strategy to assure the best possible mutually accepting solution to obtain a win/win situation (Berger & Watts, 1992).

Uncertainty avoidance refers to the comfort level of a person in an unclear or risky situation. High uncertainty-avoidance cultures have formal bureaucratic rules, rely on rituals and standards, and trust only family and friends. They require clearly defined structure and guidelines. Low uncertainty-avoidance cultures prefer to work informally with flexibility (Berger & Watts, 1992). They disfavor hierarchy, and are likely to seek resolving solutions rather than maintain the status quo.

Power distance refers to the acceptance of authority differences between those who have power and those affected by power. High
power distance is authoritarian, and protocol, formality, and hierarchy are considered important. Decisions are based solely on personal judgments made by power holders. Business dealings between equals are basically a Western concept and are not found in status-oriented societies as Japan, Korea, or Russia. North Americans are informal, and downplay status by using first names, dressing in casual attire (Hendon et al., 1998).

The Japanese dress conservatively—they always prefer dark business suits; to be dressed casually during negotiations with the Japanese would, therefore, be inappropriate. The Japanese do not believe in using first names unless it is between the very best of personal relationships. In Asia, honors, title, and status are extremely important: address your counterparts by their proper titles. Frankness and directness, virtues for Americans, are neither desirable to Mexicans in formal encounters nor to Japanese at any time.

The valued American handshake is often out of place in Japan where bowing is customary. When meeting a devout Moslem, never shake with

<table>
<thead>
<tr>
<th>Table 1. Cultural Interpretation of Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
</tr>
<tr>
<td>Group/individual preference</td>
</tr>
<tr>
<td>Honor</td>
</tr>
<tr>
<td>Objects</td>
</tr>
<tr>
<td>Respect</td>
</tr>
<tr>
<td>Managing differences</td>
</tr>
<tr>
<td>Time</td>
</tr>
<tr>
<td>Success</td>
</tr>
<tr>
<td>Risk taking</td>
</tr>
<tr>
<td>Reverence</td>
</tr>
<tr>
<td>Style of interaction</td>
</tr>
<tr>
<td>Communication</td>
</tr>
</tbody>
</table>

Abdullah, 1996:130.
the left hand or utilize the left hand for any purpose. Any use of it in an interaction with a Moslem is considered rude and a personal affront (Herbig & Kramer, 1992).

When a high masculine culture tries to deal with a high power distance culture, conflict will most likely result if each party does not take steps to understand the cultural differences and styles. Low power distance cultures seek power balance and justice. Competency is valued over seniority, which yields a consultative management style. Dealings between cultures with low masculinity and low power distance usually result in more cooperative and creative behavior (Hendon et al., 1998).

Individualistic cultures tend to put tasks before relationships and value independence highly. These cultures tolerate open conflict and place the needs of the individual over the needs of a group, community, or society. Individualistic societies expect the other party to have the authority to make decisions unilaterally (Hendon et al., 1998). In a highly individualist country such as the United States, it is considered socially acceptable to pursue one’s own ends without understanding the benefits for others (Lituchy, 1997). In contrast, managers from a collectivist culture such as China will seek a stable relationship with a long-term orientation, stressing above all the establishment of a personal relationship (Cellich, 1998). A collectivist society values solidarity, loyalty, and strong interdependence among individuals, and the members define themselves in terms of their membership within groups (Hendon et al., 1998). Collectivist managers assume that details can be worked out if the managers can agree on generalities and show more concern for the needs of the other party by focusing on group goals. Members of collectivist societies are irritated when members from individualistic societies promote their own positions and ideas during discussions (Hendon et al., 1998).

**MARKET CONSIDERATIONS**

Managers must also learn as much as possible about the target market. International initiatives often fail because of “inadequate research and planning rather than problems with the technology and quality of products or services” (Murray, 1993:53). The company must know what sales outlets are available to its product and how the product is distributed in the foreign market. This will decide whether the product is sold directly, or through distributors, retailers, or agents (N. Moore, personal conversation, March 5, 1999).
Simone (1998) described a five-step, systematic approach to market entry:

1. Resource assessment—does the company have the financial and management resources necessary to effect market entry?
2. Market/competition/risk analysis—in addition to the traditional market analysis, the company should also research the level of competition its product will face, as well as what risks are posed by the foreign market environment.
3. Portfolio decisions—given the company’s resource limitations, it must decide the number of products, and which products in particular, in combination with which foreign markets, will generate the highest return on investment.
5. Monitoring process/exit strategy—due to the high failure rate of international ventures, the firm should have a process for monitoring market conditions and abandoning the market if necessary.

More should be said about the assessment of risk inherent in a foreign market. According to Simone (1998), a thorough risk assessment includes political and legal issues, such as the government’s stability and the level of political corruption or civil unrest. Financial issues like currency stability and economic indicators such as income disparity, as well as investment and trade conditions, such as tariffs, trade agreements, and repatriation rules should also be assessed. Finally, it is important not to forget socio-cultural issues, such as “labor skills, cost and availability (of labor), work ethic, and attitudes toward the West” (Simone, 1998:75). Murray (1993:53) advised, “Before plunging into the international market, company leaders should educate themselves and key staff about the local market, consumers, politics, laws and business practices.”

Once a company has assessed whether it is positioned to enter the international arena, and it has identified potential foreign markets for its product, the company must decide how much of its resources to commit to its international strategy. A company that expects to generate a significant percentage of its revenue from international commerce will have to commit itself to extensive market research and intensive marketing and sales; attending trade shows is not enough. Although much of the necessary research and preparation can be done in the United States, heavy involvement in foreign markets will require direct contact
with the markets themselves, including personal visits by the company’s top management (N. Moore, personal conversation, March 5, 1999). For the firm seeking an upstream partner, it is also necessary for firm’s managers to make personal visits to potential international sources of raw materials, production, and labor (Scully & Fawcett, 1994).

**EXTERNAL SUPPORT**

Lacking the internal resources to prepare it to enter a new international market, the small enterprise can turn to several support sources. The first resource to contact is the U.S. Department of Commerce Small Business Administration (SBA). Local offices are available in many cities for practical support. The SBA also forms joint ventures with other entities to provide customized services to different constituents. The Virginia International Trade Center directed by Ms. Moore is one such joint venture between the SBA and the University of Virginia College of Commerce and Business Administration (N. Moore, personal conversation, March 5, 1999).

Many cities and most states have government or nonprofit agencies established to assist small businesses in international commerce. The California Export Finance Office, Oregon’s Export Services Corporation, and the New York and New Jersey Port Authority’s “XPORT” are just a few of the innovative programs available on the state and local level (Swaim, 1993). The need for information and support is just as salient for the small business looking for global sources of the upstream elements of its value chain. Third-party specialists such as brokers and (freight) forwarders, trading companies, as well as trade directories and industry publications, are all useful sources of information (Scully & Fawcett, 1994).

Financial limitations may also prevent a U.S. small business from establishing itself unilaterally in a foreign market. Small companies will usually need to form relationships with foreign companies to take advantage of the warehousing, distribution (Karagozoglu & Lindell, 1998) and marketing systems put in place by the foreign partners. In fact, firms directed by managers experienced in international business tend to prefer partnerships, and are more adept at forming successful partnerships (Reuber & Fischer, 1997). This fact elucidates the importance of hiring well-trained, experienced managers.

Partnering with a foreign firm limits the domestic company’s control; however, it reduces the company’s exposure to risk and the drain on
How a Small Business Enters the International Market

company resources, especially human resources. Export trade companies (ETCs) and export management companies (EMCs), because of their product knowledge and established networks of foreign distributors, are excellent avenues for entering foreign markets, especially difficult markets such as the Middle East, where trade regulations and unfamiliar cultural practices make market entry an extremely risky venture (Murray, 1993).

Because these services are extremely expensive, export management and trade companies should be reserved for only the most difficult markets. If the company is serious about internationalizing, however, its managers will be personally involved in the more manageable foreign markets.

The best advice is to start slow. Begin by using indirect forms of international commerce, such as passive exporting. One way to break into the international market is to supply a large domestic firm that is expanding internationally, like Wal-Mart or Home Depot. Then, use contacts in those firms to gather information about the target market. It is also wise to start an international program in a market that is geographically and culturally close to the domestic firm’s environment. As Karagozoglu and Lindell (1998:46) state, Canada and Mexico are “great places to get your feet wet.” Due to their proximity to the United States, as well as their participation in the North American Free Trade Agreement (NAFTA), doing business in these countries is relatively inexpensive. Most small businesses can even afford to send their own managers to these markets (Karagozoglu & Lindell, 1998).

CONCLUSIONS

Small businesses are a key factor in the economies of all nations. Often they provide the most jobs, the most economic growth, and the most innovation. Increasingly, small businesses must face the challenges of becoming multinational companies and entering the international marketplace. The small business does, however, face some unique problems and prospects when entering global competition. A small business must overcome certain traditional barriers that may inhibit its internationalization. Small businesses must develop a global culture, change the attitude of key decision makers, gain crucial international experience, and overcome the size barrier of internationalization. Of course, small businesses can operate in a global environment and remain a small business if they chose to.
Crucial to small business is finding ways to access foreign customers and business partners. Small businesses have the same participation strategy as larger firms. However, small businesses often do not have the in-house resources to identify or go directly to foreign customers. Fortunately, there are many public and private resources available to businesses wishing to become multinational. Entering the international market is an entrepreneurial venture. Entrepreneurial ventures require successful entry-wedge strategies if the company hopes to have any chance of success.

Small businesses will continue to be an important and growing component of international trade and investment. As a result, small business managers will need many of the same multinational management skills used by managers from larger companies. Understanding the national culture as well as important historical, social, esthetic, political, and economic trends builds a foundation. A better understanding of the processes of entering an international market will help small businesses avoid potential obstacles to success.

REFERENCES
